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SUBJECT: DG ELBARADEI FUELS THE BUDGET DEBATE

REF: A. UNVIE 109
[1](#)B. UNVIE 201

[1](#)1. (SBU) Summary: IAEA Director General ElBaradei intervened during a session of the ongoing Board of Governors meeting to deliver an impassioned plea in favor of a budget increase. ElBaradei said "two decades" of zero growth had restricted the IAEA's ability to do its job, and warned that Member States would sooner or later bear the responsibility of "another Chernobyl," a terrorist attack using radiological material, or the disclosure of a clandestine nuclear program. ElBaradei's intervention came on the heels of calls by the UK, Germany, France and others to restrict the IAEA's budget to zero growth. The G-77 statement contributed a new proposal for calculating increases for the Technical Cooperation Fund but otherwise failed to break new ground or communicate strong support for a budget increase. China (speaking for the first time in this budget debate), Russia, Norway and Turkey gave welcome (but lukewarm) support for an increase; only the U.S. indicated broad support. Mission has learned of a "silent split" in the G-77 over the budget increase, leading to lackluster statements and hampering our efforts to isolate the European budget hawks. We will need to encourage Argentina and Brazil to take a leadership role among the G-77 and come out in favor of a budget increase. Senior level political discussions will also be necessary to prod the European budget hawks - UK, France, Germany - into accepting an increase of up to 9.5 percent in the IAEA budget. The upcoming G-8 meeting of Foreign Ministers June 25-26 represents a prime opportunity to raise the IAEA budget issue at a high level. End Summary.

Board Room Offers an Opportunity to Talk Budget

[1](#)2. (SBU) On June 16 during the ongoing Board of Governors meeting, Member States addressed Agenda Item 4 to approve the Report of the Program and Budget Committee (ref a). Vice Chair Kirsti Kauppi (Finland) asked Board Members to refrain from using the agenda item to repeat their previous positions on the budget, but her request went unheeded and most Member States repeated their previous positions. They remain sharply divided over the priority areas for a budget increase and even whether there should be any increase above inflation. The U.S. was the only Member State to indicate broad support for a budget increase that would address a range of priorities. Norway, the only other Member State publicly supportive of an increase, emphasized its support for Major Program 3 with a focus on safety. More positively, a broad spectrum of Member States have clearly reached consensus on funding for the Seibersdorf Analytical Laboratory (SAL) and the establishment of a Major Capital Investment Fund (MCIF), albeit on a smaller scale and

possibly using alternative funding mechanisms such as borrowing (ref b).

13. (SBU) The UK, Germany, France, Switzerland and Mexico repeated previous positions that called for additional savings, cost-cutting measures, and the 2009 budget as a point of departure for the 2010-2011 budget. Spain surprised participants by suggesting that some activities of the Technical Cooperation Fund (TCF) should be folded into the Regular Budget. Most observers took this to mean Spain would consider a budget increase, but Spanish Counselor Jose Luis de Guzman later explained to Msnoff that the cost of including some TCF activities could be offset by additional savings - with the end result of zero real growth (ZRG). De Guzman said he had included the TCF suggestion as an incentive for the G-77 to give greater consideration to Nuclear Security.

14. (SBU) Ireland did not make a statement, but Irish Deputy PermRep Conleth Brady took Msnoff aside to plead for fiscal austerity, explaining that the Irish government was in dire straits financially, that contributions to international organizations for 2010 had been frozen, and that any increase in the Regular Budget must be taken from Ireland's commitment to the TCF. A vocal budget hawk, Conleth was uncharacteristically apologetic about Ireland's position, explaining that "under other circumstances, of course we would support the U.S."

A New Twist from the G-77

15. (SBU) The G-77 statement repeated the usual support for development programs. More interestingly, the statement included a new proposal for calculating TCF increases based on 1) the average of the real increase in the Regular Budget and the price adjustment, with the stipulation that 2) the result never falls below ZRG. (For example, if the Regular Budget real increase is 6 percent and the price adjustment is 2 percent, TCF would receive a 4 percent increase.) South African Counselor Bennie Lombard enthusiastically explained to Msnoff that the formula had been devised to assure the predictability of TCF contributions from year to year. Pakistani Second Secretary Usman Jadoon was similarly enthusiastic, viewing the calculation as a way to take the "pain and humiliation" out of TCF negotiations. Msnoff suggested that a long term commitment to a TCF formula would be a tall order that would probably not get by the budget hawks. Lombard and Jadoon were receptive to the comment, describing their calculation as an opening position, and promising to consider applying the TCF calculation as a one-time, one-year deal rather than a standing expectation.

A Silent Split

16. (SBU) In a separate conversation, Jadoon admitted to Msnoff that there was an silent split in the G-77 between countries that wanted a budget increase (Pakistan, Egypt, possibly the Philippines) and those that paid larger assessments and were likely under instructions to avoid an increase (Brazil, Argentina, possibly South Africa). Usman mentioned that G-77 countries were awkwardly silent on their respective positions, and that this caution was keeping the G-77 as a group from energetically confronting the budget hawks. Jadoon suspected he was in the same boat as a number of other G-77 countries - supportive of an increase but instructed not take a leadership role. Jadoon suggested to Msnoff that the U.S. do more to lobby the Group of Latin American Countries (GRULAC) in order to inject more enthusiasm into G-77 statements on the budget. G-77 heavy hitters Brazil and Argentina are particularly important.

Tremulous Voices

17. (SBU) In contrast to the predictable statements by the European budget hawks, new voices were added in cautious

support for a budget increase. China spoke for the first time in a carefully-worded statement that included the merest hint of support for a budget increase. Turkey also spoke for the first time, describing the importance of resourcing the Agency. Russia spoke publicly for only the second time, describing the latest budget proposal as "reasonable." Cuba pointed out the flawed logic of asking the Agency to expand its role while refusing to commit additional resources. Japan spoke conciliatorily about balancing the pressures of the budget crisis with adequately resourcing the Agency.

ElBaradei's Backlash

¶18. (SBU) These voices of support were so faint compared to the strong statements by the budget hawks that Director General ElBaradei grew visibly frustrated as the session wore on and walked out on the UK Ambassador's intervention. In a surprise intervention at the end of the session, ElBaradei claimed he had submitted a budget that was not only realistic but "credible." He mentioned that even in good economic times, Member States had resisted a budget increase, and that they would eventually "reap what they sowed." He warned Member States not to "come to me in a couple of years, after there is another Chernobyl, a terrorist attack, or a country develops a clandestine nuclear program - that is your responsibility." ElBaradei asserted that he could not in good conscience submit a budget that deprived the Agency of the ability to do its job in nonproliferation, safety, security and development. Asking the Agency to "pass the hat" was a "bastardization" of an important international organization.

¶19. (SBU) ElBaradei also turned the tables on Member States who insisted on prioritization, telling them to "do some prioritization of their own" in choosing which international organizations to support. ElBaradei singled out the U.S. twice during his impromptu intervention, referring to U.S. calls for a budget increase and President Obama's expressed appreciation for the linkages between poverty and insecurity. He also chided Member States for stressing cost savings, saying, "I can keep cutting five dollars here and five dollars there, but that's not going to give me the sixty million I need." He repeated that what some states were calling "cost savings" were in reality "program cuts." Although several ambassadors complained about ElBaradei's intemperate remarks, the German DCM welcomed them, telling us privately that he was glad the visiting Economics Ministry representatives on his delegation had the opportunity to hear the DG's impassioned remarks.

¶110. (SBU) Budget issues resurfaced in the subsequent debate on the Safeguards Implementation Report (SIR), with several delegations questioning the Safeguards Department's recent carryover of unspent funds. Switzerland noted that 10.5 million Euros remained unspent in 2008 and were carried over to 2009, and asked whether the funds would be spent. Safeguards Director Olli Heinonen said that most of the unspent funds were due to delays in major projects at the Rokkasho Reprocessing Plant and the MOX plant in Japan and at Chernobyl, as well as in some large contracts, and that most of the funds would be spent in 2009.

¶111. (SBU) Speaking privately with DCM, UK delegation member and G-8 Non-proliferation Directors Group member Liane Saunders welcomed the recent agreement on IAEA resource language for the G-8 meeting. She agreed with DCM that it was unhealthy for the E3 and U.S. to be publicly and starkly divided, as we were in the most recent round of budget negotiations. She also agreed that we need to reach a consensus on IAEA budget needs among the E3 and U.S. non-proliferation experts who are charged with coordinating international priorities on issues such as safeguards and nuclear security. Echoing what we have heard from other UK counterparts, Saunders acknowledged the budgetary implications of Prime Minister Brown's public statements in favor of strengthening the IAEA, but she also noted the reluctance to commit to anything that looks like a "blank

check" with the DG race still unresolved.

Comment

¶12. (SBU) Lack of a vigorous and unified G-77 position on the budget has emboldened the budget hawks to hunker down on zero growth. This "silent split" in the G-77 explains a lot about the slow progress of budget negotiations, which should have been concluded by the time of the current Board meeting. Stronger support from the G-77 would effectively buttress ElBaradei's efforts to shame the budget hawks into an increase. Brazil and Argentina are key to this effort. Incipient support from China and Russia - if we strengthen it - could also tip the balance in favor of an increase. Mission will continue working with Washington to push key Member States to support an increase (POC: IO Desk Officer / U.S. delegation member Jim DeTemple). Mission also appreciates Washington efforts to work the IAEA budget issue through the G-8 venue, and notes the potential to continue pursuing high-level support for a budget increase at the upcoming meeting of G-8 Foreign Ministers June 25-26.

SCHULTE